



Project-Based Recovery Opportunity Program (PROP)

PROP PROGRAM GUIDELINES

Overview/Background

In Louisiana, the ongoing need to recover from the destructive effects of Hurricanes Katrina and Rita has been compounded by the recent national credit crisis. In order to encourage private and philanthropic investment, diversify the economy and extend opportunities to start-up and early-stage innovative businesses, the State of Louisiana Office of Community Development Disaster Recovery Unit ("OCD-DRU") has designed Phase III of the Business Recovery Grant and Loan Program to focus support on key areas and target sectors.

The Business Recovery Grant and Loan Program (BRGL) was created in November 2006 to provide financial assistance to small businesses negatively impacted by Hurricanes Katrina and Rita. The program is funded through a grant from the U.S. Department of Housing and Urban Development as eligible under Sections 105(a)15, 105(a)17 and 105(a)22(b) of the Housing and Community Development Act of 1974. The activities must meet one of the following national objectives: benefiting persons of low to moderate income; urgent need; or elimination of slums and blight.

Phase I was launched in February 2007 with the goal of sustaining businesses that were struggling to survive or reopen in the post-Katrina and Rita environment. BRGL Phase I successfully provided over \$85 million in grants and interest-free loans to over 3,600 small businesses.

Phase II was designed as a continuation of Phase I with a focus on businesses that had existed prior to the hurricanes and were able to reopen. The guidelines were adapted to provide assistance to worthy businesses that did not meet the requirements of Phase I but were severely impacted by the storms. Applications were accepted during the summer of 2008. Over 770 loan/grant awards were funded totaling over \$62.5 million.

While Phase I and Phase II provided much needed resources and capital to small businesses in the affected parishes, the effects of the hurricanes are still evident. Some areas have been slow to recover due to the slow return of residents as well as the overall economic downturn. As the five year anniversary of Hurricanes Katrina and Rita approaches, many small businesses that were located in the storm-affected areas have made the difficult decision not to reopen.

Applicants in Phase III will be divided into two program categories: **Project Based Recovery Opportunity Program (PROP)** and **Louisiana Innovation Program (LIP)**.

The purpose of both programs is to address the critical needs of businesses and residents by achieving the following goals:

1. assist neighborhood and local economic development priorities



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2. invest in commercial corridor revitalization
3. support key local and state industry sectors
4. spur long-term job creation, economic revitalization and long-term sustainability
5. employ disaster recovery resources to leverage private resources

PROP Program Description

The **Project-based Recovery Opportunity Program** targets mid-size businesses that are located or intend to locate in an area suffering from the long-term effects of Hurricanes Katrina and/or Rita. For-profit businesses, community-based non-profit organizations, community development financial institutions and community-based economic development organizations headquartered in or with significant operations in Louisiana are eligible to apply for direct low-cost loans for an eligible project.

Individual businesses (for-profit, community-based non-profit organizations, community development financial institutions and community-based economic development organizations) are eligible to apply for funding for a specific major project. Awards will be based on CDBG eligibility, business or project readiness, availability of other sources of funding, and ability to maintain business in the community or implement the project in a timely manner. Applicants will be required to provide a plan detailing an acceptable use of funds, including demonstration of how the loan will be used.

Project Criteria

Projects must have:

1. A solid business and development plan
2. Current financial information and/or financial pro forma
3. Demonstrated ability to achieve the objectives proposed in the application (ability to obtain other sources of funding, project readiness, etc.)
4. Supporting documentation
5. Commitment of private funds

Additional consideration will be given for projects that:

1. Create opportunities for new small and/or historically disadvantaged businesses
2. Preserve historic structures and/or are contextually appropriate for the neighborhood
3. Provide a critical or essential service to a recovering neighborhood
4. Demonstrate community support
5. Create additional Low to Moderate Income (LMI) jobs above the required minimum
6. Have a positive repayment and compliance history in previous CDBG programs

General Eligibility

To be eligible for assistance under PROP, a business must meet the following criteria:



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1. Planning to open a new business in an eligible parish or currently open in an eligible parish with plans to expand.
Expansion is defined as:
 - a. renovation, expansion, construction or purchase of a new facility or location,
 - b. expanding capabilities, creating or expanding existing lines of business, or
 - c. hiring and training new employees
2. Create a minimum number of jobs per project as determined by industry standards
3. Minimum annual gross revenue of \$250,000 for existing businesses
4. Minimum equity investment \geq 10% of total project costs
5. CDBG funds cannot exceed 75% of total project costs
6. Eligible Parishes: Calcasieu, Cameron, Jefferson, Orleans, Plaquemines, St. Bernard, St. Tammany, Vermilion, Acadia, Allen, Beauregard, Iberia, Jefferson Davis, Lafourche, St. Charles, St. John the Baptist, St. Mary, Tangipahoa, Terrebonne, and Washington

Miscellaneous Eligibility

1. Non-profits are eligible based on the earned income portion of their operation
2. Religious organizations are eligible based on the secular component of their business
3. Bars are eligible to receive awards; package liquor stores **are not**
4. Single & multi-family residential projects **are not** eligible
5. An owner may participate in a maximum of two awards and the total sum of ownership percentages must be \leq 100%
6. Eligibility issues that arise during the course of program implementation will be decided by OCD-DRU via the Policy Clarification / Change Form process

Required Documentation for Existing Businesses, Start-ups and Non-Profits:

PROP Application

All projects must have a completed application on the form provided. Information required in the application includes, but is not limited to:

1. Business description
2. Source and use of funds
3. Project objectives
4. Area(s), industry(s), and people served by project
5. Detailed description of how and how many jobs the project will create
6. Realistic timetable of project start to completion
7. Personal and/or business competences and capabilities necessary to achieve project success and completion
8. Documentation of commitment of all sources of funding (equity/other sources of financing)



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Additional Required Documentation

1. A solid business and development plan
2. All current relevant financial information, such as financial statements, and project pro-forma
3. Signed federal personal tax returns for all owners/principals for most recent three (3) years
4. Copy of current government-issued identification for all owners/principals
5. Supporting documentation (i.e. company history, resumes etc.)
6. Proof of business/ownership structure

Additional Required Documentation for Existing Businesses

1. Tax returns for business including all schedules for prior three (3) years
2. Financial statements for last two (2) quarters

Loan Terms

1. Total award amounts will range from \$500,000 to \$5,000,000
2. Minimum loan term of five (5) years; maximum loan term of thirty (30) years (term will be determined by project type, size, and proposed use of funds)
3. Minimum annual interest rate of 1% (rate determined by project's cash flow and ability to service debt)
4. A portion of loan may be forgivable based on timely repayment and adherence to agreed upon project performance goals and plans
5. No pre-payment penalty

Underwriting Criteria

All award applicants must meet the following minimum underwriting criteria:

1. Satisfactory credit history of all owners
2. Adequate current and/or projected debt coverage ratio (including all new debt service)
3. Personal guarantee of full loan amount is required for all business owners
4. All award applicants must meet the CDBG Underwriting Criteria of 24 CFR 570.209¹:

(1) That project costs are reasonable;

¹ Note: there are no objective or absolute measures of satisfaction of these criteria



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- (2) That all other sources of project financing are committed;
- (3) Documentation of need and that CDBG funds are not substituted for non-Federal financial funding or support;
- (4) That the project is financially feasible;
- (5) That to the extent practicable, the return on the applicant's equity investment will not be unreasonably high; and
- (6) That to the extent practicable, CDBG funds are disbursed on a pro rata basis with other finances provided to the project.

A template/guide will be provided by OCD-DRU regarding how underwriting should be conducted for these and any other required CDBG criteria.

Use of Funds

Eligible uses of proceeds include:

1. Acquisition, construction, rehabilitation, installation or reconstruction of commercial real estate
2. Purchase of equipment
3. Purchase of inventory

Ineligible uses of proceeds include:

1. Refinancing of State Bridge Loans
2. Refinancing of existing debt
3. Payment of any tax arrearages, governmental fines or penalties
4. Political or religious activities
5. Buying out any stockholder or equity holder in a business
6. Buying out or reimbursing any family member
7. Purchase of instruments or investments for the sole purpose of a return on investment
8. All other activities prohibited in the CDBG regulations in Part 570

CDBG Requirements

This program is funded as an eligible activity under the Community Development Block Grant Program. All requirements of the CDBG program that relate to the economic development activities are applicable to PROP including:

1. Benefit to Low and Moderate Income persons -- 24 CFR 570.483 (b)(4) as job creation or retention or 570.483 (b)(1) area wide benefit
2. Activities which aid in the prevention or elimination of slums or blight 24 CFR 570.483 (c) or designed to meet community development needs having a particular urgency 24 CFR 570.483(d)



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3. Guidelines for evaluating and selecting economic development projects 24 CFR 570.209
4. Other program requirements -- 24 CFR 570.601 (Sub part K)
5. Financial Records -- 24 CFR 570.502 and 24CFR 84.21
6. 24 CFR 570.603 Labor standards
7. 24 CFR 570.604 Environmental Standards

Program Documents/Manuals

OCD-DRU shall prepare a comprehensive program manual which shall include program documentation guidelines, forms, loan applications and other documents necessary to the implementation of the program.

Program Outreach

Businesses will be able to obtain information about program timing and participation at <http://www.doa.louisiana.gov/cdbg/DRHome.htm>. Outreach will be organized and undertaken by OCD-DRU, as per plans to be developed.

Program Administration

1. A committee comprised of OCD-DRU staff will review and select proposals
2. Funding availability will be announced through a Notice of Funding Availability
3. The application period will be open as long as funds are available
4. Audits of the awards shall be performed by the State for adherence to compliance and performance requirements as detailed below
5. Program administered and managed by OCD-DRU

Environmental Review

It will be the applicant's responsibility to obtain and submit a HUD Environmental Review Record (ERR), completed by an environmental consultant, in accordance with 24 CFR Part 58. As long as the consultant was properly procured, the expenses for this ERR is reimbursable as a line item under soft costs.

NOTE: There can be no choice-limiting actions on the part of the developer/owner until environmental clearance is received, and a Notice to Proceed is issued. The concept of prohibiting "choice-limiting" actions is to prevent the developer from investing in a project before all necessary environmental clearances are obtained. Market studies, environmental studies, plan development, engineering or design costs, inspections and tests are not considered "choice-limiting" actions.



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"Choice-limiting actions" are defined as any activity that would have an adverse environmental impact or limit the choice of reasonable alternatives, such as acquisition by the developer/owner (or any subsidiary of the developer), construction, demolition of buildings, or rehabilitation or reconstruction of buildings.

Per 24 CFR Part 58.22, failure to comply with the prohibition against committing funds or taking physical action (using either HUD funds or non-HUD funds) before the completion of the environmental review process could result in loss of HUD assistance, cancellation of the project, reimbursement by the developer/owner to HUD for the amount expended, or suspension of the disbursement of funds for the affected activity.

General Monitoring Plan

Pre-Funding Review -- Eligibility Monitoring

1. Loans will be reviewed by OCD-DRU to ensure they meet PROP guidelines
2. Loans will be reviewed by OCD-DRU for adherence to HUD CDBG underwriting guidelines:
 - a. Are project costs reasonable?
 - b. Are all sources of financing committed?
 - c. Funds are not substituting for non-Federal support?
 - d. Is the project financially feasible?
 - e. Is the return on equity reasonable?
 - f. Are CDBG funds being disbursed on a pro-rata basis?
3. Loans will be reviewed by OCD-DRU for applicable CDBG Regulations depending on funding use:
 - a. National Objectives
 - b. Civil Rights (incl. Section 3 and Section 504)
 - c. Environmental Requirements
 - d. Labor Requirements
 - e. Procurement Requirements
4. On-site review of all businesses prior to funding

During Funding Review -- Performance Monitoring

1. Review of 100% of funded businesses' records and documentation to:
 - a. Confirm program compliance
 - b. Manage program performance
 - c. Ensure continued compliance
 - d. Minimize fraud, waste and abuse



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- e. Assure timely and accurate disbursement of funds
2. On-site review of all businesses during funding period within 1 year of closing
3. Review a 20% random sample of sub-recipient's contractor's documentation. If the level of non-compliance is significant, the sample size will be increased by 10%
4. Verify that all files contain all required closing documents and related information

Post-funding Review

1. Verify files contain all required documentation, especially use of funds information
2. Require quarterly financial statements from all businesses due on the 30th of the month following the previous quarter

Ongoing Loan Monitoring and Servicing of Recipients

1. OCD-DRU compliance staff monitors loans per standard loan protocol, along with CDBG regulations
2. OCD-DRU is expected to make customary and reasonable efforts to collect on loans

Audit Findings

All audit findings shall be recorded in detail by OCD-DRU, and shall detail both compliance of application and use of funds. Issues of non-compliance shall be categorized as either material or administrative. Companies found to be in material non-compliance, or which received funds in error, may be required to repay grant or loan funds to the State, as per the Terms and Conditions agreement.

Companies found to be willfully fraudulent will be prosecuted.

Revolving Loan Funds

Loan repayments received from PROP recipients will be placed into a non-interest bearing account and reinvested to fund other PROP projects.

Statement of Understanding, including signed attestation of truth on loan applications

Once approved, business owners are required to sign an attestation that includes:

_____ **SBA Duplication of Benefits:** The Small Business Administration will review all award recipients for "Duplication of Benefit." If it is found that you received an SBA loan for your business for the purpose of repairing or replacing physical damage (i.e.,



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equipment or inventory) due to Katrina and/or Rita, and that you are now receiving an award for the same purpose, you may be required to use some or all of your award to repay your SBA loan. This repayment will be made up-front by the Louisiana Office of Community Development Disaster Recovery Unit ("OCD-DRU") and you will then receive the net proceeds, along with information about your Duplication of Benefit.

____ Louisiana Department of Revenue: The undersigned understands that the Project-Based Recovery Opportunity Program ("PROP") has the authority to confirm with the Louisiana Department of Revenue that the award recipient is in good standing with Louisiana Department of Revenue. Award recipient must be in good standing in order to receive award funds. If the Louisiana Department of Revenue cannot verify that the award recipient is in good standing they will notify OCD-DRU, and a letter will be issued to the award recipient informing them that they should contact the Department of Revenue to discuss their account

____ Public Announcements: If the award recipient wishes to issue a public announcement concerning this award, the text of the proposed announcement must be submitted to OCD-DRU for review and approval prior to the release date. The Louisiana Office of Community Development Disaster Recovery Unit ("OCD-DRU") must be mentioned in any public announcements. Approval shall not be unreasonably withheld.

____ No Right of Assignment or Delegation: The award recipient may not assign or otherwise transfer its rights or delegate any of its obligations under this letter unless expressly approved by OCD-DRU.

____ Revocation: OCD-DRU reserves the right to revoke this award if the funds are not used for the stated purpose. The award recipient understands and agrees that revocation of this award will require the return of all funds disbursed. The business will be obligated to repay any funds received under this program in the event (a) its application including any information provided therewith or thereafter, contains any material misrepresentations; or (b) the award was made in error and the applicant is not entitled to assistance under the Program Guidelines.

____ Monitoring and Records:

1. This award may be used only for the purposes stated herein. Documents providing evidence of the use of the funds from this award shall be retained by award recipient for five years from the date of disbursement of the initial installment of the award.
2. OCD-DRU reserves the right to monitor usage of award funds. Such monitoring will include review that the entire amount of the award was used only for the expenses as specified above in accordance with your proposal.
3. OCD-DRU may, during regular business hours and on reasonable notice to award recipient inspect, audit, or copy records pertaining to this award. It is further agreed that the Louisiana Legislative Auditor of the State of Louisiana, the Office of Community Development, Division of Administration, and/or the U.S. Department of



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Housing and Urban Development auditors or auditors contracted by them shall have the option of auditing all records and accounts of award recipient that relate to this grant at any time during normal business hours, as often as deemed reasonably necessary, to audit, examine, and make excerpts or transcripts of all relevant data.

4. Awardee's failure to cooperate in such review will result in forfeiture of the award Amount and awardee will be responsible for repaying the full amount of funds disbursed.

_____ Information Access Authorization: For determination of eligibility, the applicant should submit information requested in the Application Checklist.

In the event that additional information not included with the initial application checklist is required to obtain an approval on the credit request, the undersigned agrees to provide that information in a timely manner to the loan officer processing the request.

The undersigned gives permission to OCD-DRU to use its name in its Annual Report and in its marketing materials. No financial details will be released.

The undersigned authorizes OCD-DRU to obtain personal credit reports and business credit reports, and also acknowledges that all information relative to the loan request, including the application and related documentation, becomes the property of OCD-DRU and will not be returned to the applicant.

_____ Affirmation of Information Provided in Application: By the applicant's signature below, the applicant represents and warrants that he/she has read this application and Statement of Understanding and attests that all information and documentation furnished in connection with the application is true, accurate and complete to the best of his/her knowledge and that any regulations relative to the PROP will be complied with.

C. Consolidated entry of loan applications into a universal electronic database

Entry of all applications into a single database, Sage CRM, will allow for screening for and elimination of duplicate applications, as all awardees will be cross referenced by business name, owner name and Federal Employee Identification Number (EIN). Consolidation of all data into a single database also allows for generation of tabular and graphic reports, which facilitate data review.

D. Review of applications in database by State program staff

Applications in the Sage CRM database are reviewed by Louisiana Office of Community Development staff to check for accuracy and compliance. Any issues are immediately addressed in consultation with the responsible intermediary. Final disbursement of funds will



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occur only after written authorization by the OCD-DRU program manager on consolidated invoices.

E. Checking of awardees against Secretary of State lists and Department of Revenue tax records

The Secretary of State website may be used to provide an additional verification of the incorporation information supplied in applications, and the Department of Revenue will be checking for tax compliance. Corporations not legally registered will not receive their funds. Businesses not in compliance with State taxes, following April filings, will not receive their funds until in compliance (or under an approved Department of Revenue repayment plan) and may be required to repay funds received.

F. Audit of awards

All loan awards will be subject to detailed audit by the state, including verification of official documents against state records, review of all application materials, and physical site visits to verify appropriate use of funds. Auditing will be increased if warranted.